

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

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C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 14176

E.O. 11652: GDS

TAGS: EAID, JA

SUBJECT: JAPANESE AID PROGRAM: DAC ANNUAL AID REVIEW

REFS: A. TOKYO 8234, 6/20/75; B. TOKYO A-249, 7/10/76; C. TOKYO
10779

1. SUMMARY: IN 1975, OFFICIAL DEVELOPMENT ASSISTANCE (ODA) AND TOTAL CAPITAL FLOW FROM JAPAN TO LDC'S BOTH REPRESENTED SLIGHTLY SMALLER SHARE OF JAPAN'S GNP THAN IN 1974. GRANT ELEMENT OF ODA INCREASED SOMEWHAT BUT BOTH VOLUME AND TERMS OF ODA STILL FALL FAR SHORT OF DAC GOALS AND OF AVERAGE DAC COUNTRY PERFORMANCE. MULTILATERAL AID ROSE AS PROPORTION OF ODA FROM JUST OVER A FIFTH TO JUST OVER A QUARTER OF TOTAL. GOJ AID REMAINS HEAVILY CONCENTRATED IN FAR EAST AND SOUTH ASIA BUT OTHER AREAS' SHARE OF TOTAL ODA ROSE IN 1975. AGAIN IN 1975, BILATERAL AID CONSISTED MAINLY OF CAPITAL PROJECT ASSISTANCE IN PUBLIC WORKS AND IN INDUSTRY, MINING AND CONSTRUCTION; THE SHARE ALLOTTED TO TECHNICAL ASSISTANCE CONTINUED TO INCREASE. THE FLOW OF PRIVATE INVESTMENT FROM JAPAN TO LDOS DROPPED PRECIPITOUSLY AS IN 1974. END SUMMARY.

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2. VOLUME: IN 1975 JAPANESE OFFICIAL DEVELOPMENT

ASSISTANCE (ODA) REMAINED, AT 0.24 PERCENT OF GNP, A LITTLE OVER ONE THIRD OF THE 0.7 PERCENT OF GNP RECOMMENDED BY THE DAC AND ACCEPTED AS A STANDARD BY JAPAN. THE 1975 FIGURE WAS SLIGHTLY BELOW THE 1974 LEVEL OF 0.25 PERCENT OF GNP, ALTHOUGH THE ACTUAL AMOUNT SPENT ROSE SLIGHTLY, FROM ABOUT DOLS 1,126 MILLION TO ABOUT DOLS 1,147 MILLION. ODA FELL ALSO IN PROPORTION TO GOJ BUDGET EXPENDITURES, WHICH REGISTERED A 10.9 PERCENT INCREASE, AND IN REAL MONEY TERMS AS MEASURED BY THE 1975 GNP DEFLATOR OF 7.6 PERCENT. MEANWHILE, NEW 1975 GOJ COMMITMENTS TO ODA FELL FROM DOLS 1,920 MILLION TO DOLS 1,636 MILLION AFTER SHARP RISE IN PREVIOUS YEAR. FOR 1976 GOJ BUDGET CALLS FOR 6 PERCENT INCREASE IN ODA EXPENDITURE OVER 1975 TOTAL. THIS IS SMALLER THAN ANTICIPATED INCREASES IN GNP (13 PERCENT) AND IN BUDGET ITSELF (14.1 PERCENT).

3. THE MEMORANDUM OF JAPAN PREPARED FOR THE AID REVIEW NOTES PUBLIC ACCEPTANCE OF THE VALUE OF AID IN "DOING OUR HUMANITARIAN DUTY, PROMOTING FRIENDLY RELATIONSHIPS WITH NEIGHBORING COUNTRIES,...REDRESSING THE WIDE NORTH-SOUTH GAP TO SECURE STABILITY OF THE WORLD ECONOMY" AND CITES ONLY IMPORT LIBERALIZATION AS A SPECIFIC CAUSE OF OPPOSITION IN DIET OR PUBLIC TO FOREIGN AID. DAC EXAMINERS MIGHT INQUIRE WHAT STEPS GOJ PLANS TO TAKE TO REVERSE NEGATIVE TRENDS AND BRING ITS AID TOTALS NEARER TO DAC-RECOMMENDED LEVEL IN VIEW APPARENT SYMPATHY OF JAPANESE PUBLIC FOR PRINCIPLE OF FOREIGN AID. IN PARTICULAR, MIGHT GOJ WORK TOWARD EXEMPTING FOREIGN AID, IN WHICH AGREED NEEDS FAR SURPASS PRESENT LEVELS, FROM EXISTING RIGID BUDGETARY RESTRAINTS, AS DO MANY DAC MEMBERS NOW?

4. DECREASE OF TOTAL CAPITAL FLOW FROM JAPAN TO LDCS --DOLS 2,962 MILLION IN 1972 TO DOLS 2,890 MILLION IN 1975--REFLECTS MAINLY DRAMATIC REDUCTION IN PRIVATE CAPITAL OUTFLOW FROM NET DISBURSEMENTS OF DOLS 1,047 MILLION TO DOLS 373 MILLION. A SIMILAR DROP OCCURRED IN 1974. EXAMINERS MIGHT INQUIRE WHAT MEASURES GOJ FEELS IT CAN TAKE TO ENCOURAGE REVERSAL OF TREND. CONFIDENTIAL

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5. TERMS: IN 1975 THE GRANT ELEMENT IN JAPAN'S ODA COMMITMENTS ROSE FROM 61.8 PERCENT THE PREVIOUS YEAR TO 69.5 PERCENT. THIS OCCURRED MAINLY BECAUSE OF A MODERATE INCREASE IN GRANT COMMITMENTS AND A LARGE (DOLS 1,359 MILLION TO DOLS 871 MILLION) DECREASE IN LOAN COMMITMENTS WHICH TOGETHER CAUSED GRANTS TO RISE TO OVER 35 PERCENT OF TOTAL COMMITMENTS. IN PARTICULAR, MULTILATERAL

AID, WHICH IS ALMOST ALL GRANTS, ROSE SUBSTANTIALLY TO OVER 31.8 PERCENT OF COMMITMENTS. OTHER INDICATORS THIS ITEM ALSO FAVORABLE. EXPENDITURES THIS ITEM ALSO ROSE TO 25.9 PERCENT OF TOTAL ODA IN 1975, EXCEEDING AS THEY HAD SINCE 1972 THE DAC GUIDELINE FIGURE, AND 1976 GOJ BUDGET RAISED PLANNED CONTRIBUTIONS TO MULTILATERAL ORGANIZATIONS BY 26.3 PERCENT OVER CORRESPONDING 1975 FIGURE.

6. OVERALL LOAN TERMS ALSO IMPROVED, BUT ONLY marginally. JAPAN IS STILL FAR SHORT OF GRANT ELEMENT IN AID OF 84 PERCENT PRESCRIBED BY DAC AS NORM, AND EVEN FARTHER SHORT OF AVERAGE PERFORMANCE OF DAC, WHICH AS A WHOLE PROVIDED GRANT ELEMENT OF 86.6 PERCENT IN 1974 AID. SPECIAL PROBLEM ASSOCIATED WITH GOJ AND LOANS, AS SECRETARIAT REPORT NOTES, IS THAT OVERSEAS ECONOMIC COOPERATION FUND (OECF), MAIN JAPANESE LENDING AGENCY FOR AID, OBTAINS FUNDS FROM JAPANESE LENDING AGENCIES TO SUPPLEMENT GOJ BUDGET ALLOTMENT. THIS MEANS IT CAN EXPAND VOLUME OF DISBURSEMENTS ONLY BY ADDING TO ITS OWN BORROWINGS, SO THAT AVERAGE INTEREST RATE IT MUST CHARGE RISES SIMULTANEOUSLY. EXAMINERS MAY WISH INQUIRE WHAT POSSIBILITY JAPAN SEES OF AVOIDING IMPASSE THIS CONDITION IMPLIES AND OF MOVING TOWARD DAC-RECOMMENDED AID LEVEL WITHOUT MOVING FARTHER AWAY FROM DAC-RECOMMENDED PROPORTION OF GRANT ELEMENT IN AID.

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7. DISTRIBUTION: GEOGRAPHICAL DISTRIBUTION OF AID IN 1975 CONTINUES 1974 PATTERN OF DEVOTING MOST RESOURCES TO FAR EAST AND SOUTH ASIA BUT INTENSIFIES 1974 TREND TO LESSEN CONCENTRATION ON THESE REGIONS, WHICH GOT 75.1 PERCENT OF TOTAL ODA IN 1975 AS OPPOSED TO 86.7 PERCENT IN 1974. SHARES OF AFRICA (FYI: MOSTLY EGYPT) AND MIDDLE EAST (FYI: MOSTLY IRAQ) INCREASED TO ABSORD DIFFERENCE. WITHIN DECLINING TOTAL AMOUNT OF PROJECT ASSISTANCE COMMITMENTS (DOLS 1,277 MILLION IN 1974N DOLS 830 MILLION IN 1975) PUBLIC UTILITIES AND MINING-INDUSTRY-CONSTRUCTION COMMITMENTS AGAIN LED AMONG SECTOTS. TOGETHER THESE TWO SECTORS RECEIVED OVER 80 PERCENT OF 1975 TOTAL. WHILE THE FORMER FELL JUST 9.1 PERCENT FROM CORRESPONDING 1974 DOLLAR TOTAL, LATTER FELL 63.6 PERCENT, SOMEWHAT WEAKENING THE OFTEN MENTIONED ASSUMPTION THAT JAPAN'S INTEREST IN AID IS A FUNCTION OF HER INTEREST IN RESOURCES. AT THE SAME TIME, THE FIGURE COMMITTED TO MINING, INDUSTRY, AND CONSTRUCTION IN 1975 REMAINS MORE THAN DOUBLE THAT FOR AGRICULTURE AND FORESTRY (WHICH ALSO FELL) AND MORE THAN TEN TIMES THAT FOR EDUCATION AND HEALTH COMBINED (WHICH ROSE). FURTHER, MULTI-SECTOR PROJECT COMMITMENT, DESPITE OFTEN CONFIDENTIAL

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CITED NEED FOR INTEGRATED DEVELOPMENT IN LDOS, FELL BY 79 PERCENT. IT MAY BE DESIRABLE WHILE NOTING JAPAN'S INCREASING CONTRIBUTION TO HEALTH AND EDUCATION PROJECTS, AS WELL AS HER MEMORANDUM'S EMPHASIS ON THESE TO STRESS ONCE MORE THE SOCIAL IMPORTANCE OF HEALTH, EDUCATION AND AGRICULTURE PROJECTS ONCE MORE. IN THESE AREAS AS IN GENERAL JAPANESE AID PERFORMANCE, MIXED TRENDS AND WIDE SHORTFALL FROM DESIRABLE STANDARD ARE CHARACTERISTIC.
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